

I. Developments in the Real Economy

1. Overview



According to the International Monetary Fund (IMF), global economic growth recorded a 28-year high of 5.1 percent in 2004. Global economic expansion accelerated during the first half of 2004 but slowed in the second half as international oil prices climbed to new highs and US rate hikes triggered a rising trend in global interest rates. As far as prices are concerned, rising oil and

commodity prices pushed up wholesale prices worldwide, while consumer price inflation was relatively benign due to intense competition in retail markets. The IMF estimated CPI inflation in developed economies rose from the previous year's 1.8 percent to 2.0 percent in 2004.

Driven by a robust global economy, Taiwan's external trade performed splendidly, leading to a rise in industrial output. In terms of domestic demand, private investment picked up pace in line with warming prospects, and private consumption also strengthened, fueled by active asset markets, improving job markets and income growth. The brisk pace of economic growth slowed during the second half of the year, affected by the slowdown in global economic expansion. Nevertheless, Taiwan economic growth reached 5.71 percent for 2004 as a whole, representing the highest rate since 2001.

With respect to prices, the deflationary pressure that had confronted Taiwan since 2001 was no longer present. As domestic fruit and vegetable prices rose as a result of poor weather conditions and international prices of crude oil and raw materials surged, the wholesale price index exhibited an annual growth rate of 7.03 percent in 2004. A highly competitive retail market and stable services prices, including residential rent, contributed to a much smaller increase of 1.62 percent in the CPI.

The job market gradually improved with better economic performance and continued implementation of the government's public employment project. The average unemployment

rate dropped to 4.44 percent in 2004, down by 0.55 of a percentage point from the previous year. Meanwhile, the average labor participation rate rose to 57.66 percent, up by 0.32 of a percentage point. Nevertheless, rising prices led to a 0.05 percent decrease in real regular earnings of the non-agricultural sector, the only decline on record.

Moreover, Taiwan's balance of payments was in good shape. The current account, which measures external commodity and services trade, remained in surplus. However, due to a greater increase of imports over exports, the current account surplus shrunk to US\$19.01 billion in 2004, representing a drop of 35 percent from the previous year, and a decrease in its share in GDP to 6.0 percent.